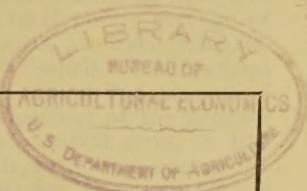


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THE POTATO SITUATION

AND

AN ANALYSIS OF THE POTATO ACT OF 1935



FOREWORD

The Potato Act of 1935 was enacted by Congress after two years of unusually low prices and heavy production of potatoes. The sentiment which resulted in the passage of the legislation originated with the growers.

The Potato Act was an amendment to H. R. 8492, the so-called "amendments to the Agricultural Adjustment Act", signed by President Roosevelt on August 24, 1935. Responsibility for administration of the Potato Act was placed with the Agricultural Adjustment Administration.

Title I of the Potato Act designates potatoes as a basic commodity. Title II provides for a national sales allotment of potatoes and a tax of three-fourths of a cent per pound effective December 1, 1935, on the first sale of potatoes in excess of this allotment. Administration of Title II is contingent upon the availability of funds for this purpose.

Through prevention of excess production of potatoes, the Act is intended to increase and stabilize the incomes of the farmers who grow potatoes. The elimination of successive periods of over-production and underproduction is depended upon to benefit both the grower and consumer of potatoes.

This publication gives a brief summary of the potato situation and explains the provisions of the Act.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

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SEPTEMBER 1935

THE POTATO SITUATION AND AN ANALYSIS OF THE POTATO ACT OF 1935

THE POTATO SITUATION

Some measure of the magnitude of a control program for potatoes may be gained from census data of 1930, which disclose the fact that 2,982,677 farms in the United States reported production of 322,415,914 bushels of potatoes on 2,944,082 acres in 1929. Out of a total of 6,288,648 farms in the United States in 1929, approximately half report potato production and 633,315 report potato sales.

Potato States are generally classified into Early, Intermediate, and Late groups. For the five seasons 1930-34 total potato acreage of the United States has, according to crop reports, averaged 3,254,000 acres and production has averaged 353,810,000 bushels. Of this total the 30 Late potato States averaged 2,499,000 acres, or 76.8 percent of the acreage, and 285,054,000 bushels, or 80.6 percent of the production; the seven Intermediate States averaged 335,000 acres, or 10.3 percent of the acreage, and 34,555,000 bushels, or 9.8 percent of the production; and the eleven Early potato States averaged 420,000 acres, or 12.9 percent of the acreage and 34,201,000 bushels, or 9.6 percent of the production.

RELATION OF FARM VALUE OF POTATOES TO SIZE OF CROP

It is widely recognized that potato growers as a whole receive a larger total return during seasons of medium or short crops than they do during seasons of large crops. Demand conditions for potatoes are such that potato growers ordinarily receive a greater sum total of money for medium- and small-sized crops than for large crops. For example, statistical studies show that under prevailing demand conditions potato producers in the United States could expect to receive approximately \$75,000,000 more for a total crop of 350,000,000 bushels than for a crop of 400,000,000 bushels.

In addition, cash outlay for producing and harvesting the larger crop is variously estimated at from 25 to 50 cents a bushel. Thus, the aggregate saving effected on the difference of 50,000,000 bushels between the larger and smaller crops would be of appreciable proportions.

The influence of large crops on total farm value is illustrated by the United States total acreage, production, farm value, and seasonal weighted average farm prices of potatoes which are shown for the period 1927 through 1934 in the table below.

It is recognized that the general decline in the price level has been one of the contributing factors in establishing potato prices. How-

Year	Acreage	Production	Farm price per bushel	Farm value
	1,000 acres	1,000 bushels	Cents	1,000 dollars
1927	3,166	368,813	108.9	401,637
1928	3,469	425,626	57.2	243,453
1929	2,973	327,652	131.5	430,862
1930	3,030	332,693	91.5	304,414
1931	3,366	372,994	46.4	173,069
1932	3,379	357,871	39.5	141,359
1933	3,194	320,203	82.3	263,527
1934	3,312	385,421	46.9	180,762

ever, that this is not the only factor is shown by simple but significant comparisons between prices and production of potatoes in years when the purchasing power of consumers was approximately equal, and when wide variations occurred in potato production. For example, the total United States production of potatoes in 1928 was 425,600,000 bushels, or 57,000,000 bushels more than the 1927 crop of 369,000,000 bushels. Yet the total farm value of the larger crop in 1928 was \$158,000,000 less than the value of the 1927 crop. Again the 1933 crop was smaller than the 1934 crop by 65,000,000 bushels, yet the farm value of the smaller 1933 crop was \$71,000,000 greater.

Statistical analysis brings out several important points.

First, large crops have a smaller total value than medium-sized or small crops.

Second, following low prices small crops usually result, which sell for a high price.

Third, when crops are small consumer prices are high.

Fourth, following high prices large crops usually result, which sell for low prices.

Fifth, when crops are large, farm prices decline proportionally more than consumer prices.

The picture presented is one of continual unbalance, with potato acreage, production, and sales fluctuating widely from year to year. One year growers receive fair or high prices for a small crop, the next year they produce a large crop, markets are glutted, and they receive disastrously low prices, and vice versa.

It is this situation which the Potato Act of 1935 is intended to improve and correct.

AN ANALYSIS OF THE POTATO ACT OF 1935

The purpose of the Potato Act of 1935 is to establish such balance between production, sale, and consumption of potatoes and such marketing conditions as will remove the disparity between farm prices of potatoes and prices of the articles farmers buy—to give potatoes a purchasing power equal to the purchasing power they had on the average for the period August 1919–July 1929. In other words, the aim of the measure is to assure a fair return to potato farmers.

Title I amends the Agricultural Adjustment Act to make potatoes a basic commodity. Marketing agreements, conversion, and removal of surplus potatoes, and voluntary agreement with producers to adjust their production and sale of potatoes can be used as devices under the Agricultural Adjustment Act for improving the potato situation.

Title II provides for a national sales allotment of potatoes and a tax on the first sale of potatoes sold in excess of this allotment. The national sales allotment is to be apportioned to the various states and sales allotments are to be made to individual growers.

ACT APPLICABLE ONLY TO COMMERCIAL POTATO GROWERS

Approximately 2,400,000 of the estimated 3,000,000 persons who grow potatoes in the United States make no sales and these persons will not be affected in any way by the Act as long as they do not sell potatoes. Also, persons whose average sales of potatoes from 1932 to 1934 were less than five bushels are entitled to an allotment upon application therefor, equal to such average sales. Thus, the

application of the Act is limited almost entirely to those commercial potato growers for whose benefit it was designed.

THE NATIONAL AND STATE SALES ALLOTMENTS

The national sales allotment for each allotment year (December 1 to November 30) is to be determined by the Secretary of Agriculture. The Secretary is required to investigate probable production and market conditions for each year and to determine from available statistics the quantity of potatoes which, if sold, will tend to establish and maintain such balance between production, sale, and consumption of potatoes and such marketing conditions as will tend to establish prices to potato producers that will give potatoes a purchasing power equal to the purchasing power of potatoes for the period August 1919-July 1929. Additional requirements are that this quantity of potatoes be such as will not reduce the total net income of potato growers below their largest probable income from production of potatoes, or tend to cause an excessive shift in consumption from potatoes to other commodities.

Apportionment of the national sales allotment will be made to the various States as outlined below. For each State:

(1) The potato acreage for the four years in which potato acreage was highest during the years 1927-1934, inclusive, will be selected and averaged.

(2) Similarly, the yield for the four years in which the yield was highest during the years 1927-1934, inclusive, will be selected and averaged.

(3) The average annual percentage of the total sales of the potato crops produced in the State in the years 1929-1934 will be determined.

(4) The three averages will be multiplied together to determine a number of bushels. For example: 266,800 acres \times 113.5 bushels \times 57.5 percent = 17,412,035 bushels.

(5) The percentage which the resulting number of bushels for any State is of the total of such numbers of bushels for all States will be the percentage of the national sales allotment apportioned to such State.

The Act provides for adjustments in the apportionment determined for each State to meet changing conditions of production and sales. Such adjustments would tend to bring the sales allotment for each State into line with sales of potatoes grown in the State.

ALLOTMENTS TO GROWERS

The first allotment year commences December 1, 1935, at a time when practically all potato harvesting has been completed, and when the number of acres growing throughout the United States is at a minimum. All potatoes harvested on or after this date come within the requirements of the Act. Potato growers who harvest and sell potatoes can apply for sales allotments in the county in which they produce potatoes.

Individual sales allotments will be based upon the past production and sales of potatoes. Ninety-five percent of each State allotment is to be apportioned to farms upon which potatoes have been grown during one or more of the years 1932-1934, inclusive, and 5 percent is to be available for apportionment to farms operated by

persons beginning or formerly engaged in the production and sale of potatoes, and who are not eligible for an equitable allotment on farms used for potato production in 1932, 1933 or 1934. Any quantity not apportioned to these growers is to be available for increasing the allotments of old producers. The Act specifies facts, such as available potato acreage and equipment, which are to be considered in determining allotments.

These provisions assure protection to old producers yet provide for production and sale of potatoes by growers who have not grown potatoes during any of the years 1932-1934 or who are for other reasons not eligible for sales quotas under the first classification.

Farms from which sales in 1932, 1933, and 1934 averaged five bushels of potatoes or less will receive tax-exemption stamps equal to such average sales. These growers will apply for allotments just as larger growers.

Each individual grower has the responsibility of submitting information as to his potato production and sales to a committee of potato growers in his county. The committee will determine the accuracy of this information and will recommend an allotment for the grower in line with the allotments of other growers in the county whose circumstances are similar.

A committee of growers for each State will review the allotments recommended in all counties in the State and assist in deciding upon any adjustments that need to be made.

Growers from the different States will cooperate with extension service representatives and the Agricultural Adjustment Administration in making final decisions as to allotments which should be approved for growers in each State, taking into consideration all available statistical data including that submitted on grower applications.

Forms and regulations for use in connection with allotments and for other purposes will be distributed to growers through the extension offices of county agents who will have the assistance of grower committeemen. Announcements will also be made explaining forms and regulations.

APPLICATION AND RATE OF TAX

Applicable only to potatoes sold in excess of tax-exempt allotments, the tax of three-quarters of a cent a pound is intended to provide a means of checking sales of excessive quantities of potatoes. Heretofore such sales have resulted in marketing conditions and prices that have given potato growers much smaller incomes for large crops of potatoes than for medium-sized crops. Naturally, the cost of potatoes to consumers under such circumstances is not reduced in proportion to the decrease in prices received by farmers. The consumer must pay for transportation and for dealers' charges on the larger quantity of potatoes. Also, he must pay for the waste which inevitably accompanies market gluts.

When the first sale of potatoes is made by a grower, tax-exemption stamps or tax stamps are to be affixed to the container in which the potatoes are sold. A grower who sells potatoes in excess of his allotment of tax-exemption stamps may, if they are available, obtain additional tax-exemption stamps from other growers. The price for such tax-exemption stamps and the method of transfer from one grower to another will be specified by the Secretary of Agri-

culture. Tax-exemption stamps will be issued to growers at convenient points in each county.

A measure of insurance to growers will be provided by the transfer of tax-exemption stamps from growers who have short crops to those whose crops exceed their sales quotas. This insurance protection will be particularly helpful to growers whose crops have suffered from such uncontrollable factors as weather conditions, without undue expense to themselves or to other growers. The Act further protects bona fide potato producers by providing that the Secretary is not to issue tax-exemption stamps to persons who are not bona fide potato producers in any year, even though these persons may have been entitled to an allotment because of their past production records or for other reasons. This eliminates the person who might speculate in tax-exemption stamps, secured on his eligibility to a sales allotment, yet who was not exercising that sales allotment in connection with potatoes of his own production during the year in which the tax-exemption stamps were to apply.

Tax stamps can be purchased at local post offices for use in payment of the tax.

Both the tax-exemption and tax stamps will be printed to correspond to the number of pounds of potatoes in the containers commonly used so that the growers will usually need to affix only one stamp to a container.

Where the form of potatoes is changed before the first sale is made, regulations are to be issued specifying the procedure which should be followed in the use of tax-exemption stamps or tax stamps.

Potatoes used in the manufacture of products of such low value that the potatoes would not be used if the tax were applied thereto, may be exempted from the tax. This is expected to be applicable to potatoes used for purposes other than human consumption, such as starch or livestock feed.

PACKAGING PROVISIONS

To facilitate collection of the tax, potatoes are to be sold in closed containers to which either tax-exemption or tax stamps will be affixed. Regulations with respect to packaging are to be issued by the Bureau of Internal Revenue. The Act requires that due consideration be given to the customs of the potato industry in the making of regulations. In effect, this means that growers will continue to use the same closed containers that they ordinarily use in selling their potatoes.

Packaging may be postponed beyond the time of first sale in the case of potatoes which are stored in bulk or which are to be graded. The time and method of packaging and of affixing stamps, and the time and circumstances under which packages may be broken, will be specified in regulations to be issued by the Bureau of Internal Revenue.

EXPORTS AND IMPORTS

Potatoes exported to foreign countries or to territories or possessions of the United States are exempted from the tax. Any taxes illegally or erroneously collected on exports may be refunded to the shipper or to the exporter if the taxpayer waives claim to the refund.

To protect domestic potato growers, imports of potatoes from any foreign country as well as from any territory or possession of the United States will be limited to quotas prescribed by the Secretary of Agriculture in accordance with the provisions. Potatoes in excess of these quotas will be subject to an internal revenue tax equal to the tax in effect on the first sale of potatoes in the United States. The one exception to this provision is on potatoes from Cuba. Cuban potatoes are exempted from the quota provisions during the months of December, January, and February unless the Secretary of Agriculture finds that potato imports from Cuba depress, or threaten to depress, unduly, the potato market for potatoes grown in or for any producing area of the United States. In such case the import quotas would be applicable to potatoes imported from Cuba.

GROWER REFERENDUM

A referendum is required to be held at least 30 days prior to the beginning of each allotment year after the first allotment year, so as to afford producers of potatoes an opportunity to vote in favor of or in opposition to continuing the tax levied under the Act. The first allotment year begins on December 1, 1935, and ends on November 30, 1936. In the referendum, which must be held before October 1, 1936, each producer who is entitled to an allotment in 1936, can cast one vote. If the majority vote is favorable the tax may be continued; if unfavorable the tax must be discontinued for the succeeding allotment year.

PENALTIES

Penalties are provided in the Potato Act for violation of the packaging provisions, for reuse or counterfeiting of stamps, failure to destroy used stamps, failure to pay the tax, reuse of packages upon which stamps have not been destroyed, making false statements to secure tax-exemption stamps, speculation, fraud or coercion in obtaining tax-exemption stamps, and possession of stamps illegally obtained. The penalties provided in the Act are not intended to apply to the ordinary purchaser of potatoes for household consumption. Further regulations under the Act are to be drafted with due regard to the customs of the industry and should reduce violations to a minimum, as they should not conflict with customary methods of sale and purchase.

SUMMARY

The Potato Act of 1935 should afford potato growers a means of obtaining information as to the quantity of potatoes which can be produced and sold at fair prices in each year; a means of apportioning the quantity of potatoes to be sold between themselves in a sane and reasonable manner; a means of preventing sales of excess quantities of potatoes which have heretofore resulted in glutted markets with accompanying waste and ruinously low farm prices; and a relatively inexpensive plan of crop insurance.

Consumers should be assured that growers on the basis of information provided under the Act will plan to produce an adequate supply of potatoes each year. Also, consumers should be aided by more stable marketing conditions for potatoes, and the dollar which they spend for potatoes should be more evenly distributed between dealers, transportation agencies, and producers, without any increase over a period of years in the cost of potatoes to consumers.

Dealers in potatoes should share with farmers and consumers in the improvement in marketing conditions which may be expected to result under the Act.